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DIRECTORATE OF INTELLIGENCE

Intelligence Memorandum

Private Foreign Investment In South Vietnam

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
May 1970

INTELLIGENCE MEMORANDUM

Private Foreign Investment In South Vietnam

Introduction

As South Vietnam faces the prospect of a reduced US presence, the need to attract private foreign capital for reconstruction and growth takes on special urgency. A major barrier to development of the private sector will be the inadequate number of Vietnamese entrepreneurs who are sufficiently sophisticated to generate the volume of funds and undertake the kinds of projects required for an acceptable rate of growth. This memorandum analyzes past flows and determinants of private foreign investment and assesses the prospects for future expansion.

Level of Private Foreign Investment

1. Private foreign investment in South Vietnam* is concentrated mainly in rubber plantations, textile and food processing industries, banking, trade, shipping, and distribution of petroleum products. Complete data on the value of this investment are not available, but the equity value** of the more important private foreign investments was estimated at $108 million in 1969 (see the Appendix).

* *For this memorandum, all investment by foreign companies under contract to the US military and civilian agencies is excluded.*
** *Cost of original plant and equipment.*

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of National Estimates, the Office of Current Intelligence, and the Director's Special Assistant for Vietnamese Affairs.

Almost 90% of this amount was accounted for by France and the United Kingdom, as the table shows. Including the French rubber plantations and other enterprises such as IBM and Parsons and Whittemore, Inc., which were not included in the $108 million estimate, the equity value of private foreign investment probably comes close to $200 million. Prior to World War II, French capital enjoyed a near monopoly in South Vietnam. Although a sizable amount of French investment was withdrawn as France's influence in Indochina waned, there still is substantial French interest in rubber and other types of plantations, banking, tobacco, beverage, and food processing. Most of the British capital is concentrated in a joint French-UK tobacco processing company.

Estimated Private Foreign Investment
in South Vietnam
1969

Country of Origin	Equity Value (Thousand US $)
France	62,349
United Kingdom	32,945
United States	8,763
Nationalist China a/	1,831
Netherlands	1,170
Japan	254
South Korea	254
Thailand	254
Italy	34
Portugal	4
Total	*107,858 b/*

a. Including some investment by Vietnamese citizens of Chinese origin.
b. Because complete data are unavailable, this figure should be considered minimum.

2. Private US investment in South Vietnam is of comparatively recent vintage. Although encouraged by the Government of the United States, this private investment amounts to only about $9

million spread among 21 industrial and commercial firms. About half of this amount is accounted for by only two companies -- Esso and Caltex, Ltd. -- which distribute petroleum products. Other important US investors in South Vietnam include Foremost Dairies, Vietnam American Textile Company (Vimytex), Chase Manhattan Bank, Bank of America, American Trading Company, and Parsons and Whittemore, Inc.

3. Lack of data, especially statistics on the annual flow of funds into South Vietnam, prevents a complete assessment of the role of private foreign investment in relation to total investment or gross national product (GNP). Nevertheless, it is clear that foreign capital has played a small role in South Vietnam in recent years. The entire present stock of private foreign capital, which has been accumulated during several decades, has an estimated value of roughly $200 million -- an amount equivalent to only about half of gross domestic investment in 1968. Because most of this private foreign capital, particularly the French capital, has been in South Vietnam for several years, the average share of private foreign capital in total investment in any one year probably has been below 5%.

4. Private domestic sources have provided most of the funds for investment in recent years. According to the Lilienthal Report,* the public sector has contributed less than 20% of new fixed investment since the escalation of the war, because the major portion of government expenditures has been allocated to defense. The relative importance of the three sources of investment is illustrated clearly by the more detailed data on investment in industry -- the sector that in most developing countries normally attracts private foreign funds. As shown in the following tabulation, private domestic sources provided almost three-fourths of the investment in industry during 1964-68, compared with only 14% from private foreign sources.

* *Joint Development Group,* The Postwar Development of the Republic of Vietnam: Policies and Programs, *Mar 69, Vol I, p. 18.*

	Million Piasters	Percent
Private domestic	13,860	74.2
Private foreign	2,670	14.3
Government of South Vietnam	2,140	11.5
Total	*18,670*	*100.0*

Because the local business community has been the source of most new funds, industrial effort has been limited to small and relatively unsophisticated ventures.

Investment Climate

5. The low level of private foreign investment in South Vietnam is not surprising in view of the investment climate. Insecurity, a shortage of skilled workers, a currency weakened by inflation, an overvalued exchange rate, inefficient administration of the investment law, unpredictable and arbitrary actions by government administrators, a xenophobia born of nearly a century of foreign domination, and uncertainty with regard to the outcome of the war -- all combine to make South Vietnam unattractive to foreign investors.

6. The war and the uncertain future of the country dominate the investment climate. The few foreigners willing to risk their capital in this environment invest only in secure areas and in projects which yield a quick return. The impact of the fighting itself on private foreign investment is illustrated by the sharp drop in private foreign investment following the major enemy offensives in 1968. A US animal feed company, for example, abandoned its plans for investing after the Tet offensive, and a US poultry firm decided not to establish a national broiler industry. According to the Japanese press, the Japanese business community sent more than half of its Saigon representatives home in the first half of 1968 as fighting around the city intensified. Other major war-related obstacles include an overburdened transportation and communications system, insecure distribution channels, and a shortage of workers, especially skilled workers, due to mobilization.

7. South Vietnam is at no disadvantage in relation to many other less developed countries so far as the rules and regulations on private foreign investment are concerned. The basic legislation regulating investment is South Vietnamese Investment Decree-Law No. 2/63 of 14 February 1963. The objective of this statute is to grant fiscal advantages and various kinds of guarantees to enterprises that contribute to the development of the national economy. In general, the 1963 law offers three broad categories of investment incentives: tax incentives, a guarantee against nationalization, and remittance guarantees.* Although the 1963 law includes many attractive features, it has not contributed significantly to attracting an influx of private foreign capital, partly because the government of South Vietnam has not really had an effective foreign investment policy. Surveys of foreign businessmen in South Vietnam reveal a multitude of problems in dealing with the Vietnamese government, which not only administers the investment law, but also controls, fairly minutely, almost all economic activity such as movement of goods, entry into business, prices, exports, and even the purchase of a new piece of equipment. The private foreign investor must work his way through a maze of paralyzing government regulations, procedures, and committees in order to obtain government approval and investment incentives. In addition, he is subjected to extralegal activities which add to the cost of doing business and create an uncertain atmosphere not conducive to increased investment.

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* *Approved enterprises enjoy exemption from a number of taxes such as import duties on equipment and spare parts necessary for the enterprise, real property tax on the enterprises until the third year after the commencement of operations, and taxes on profits for five years on industrial and commercial enterprises. Investments made within the framework of the 1963 law are not subject to any nationalization measure for a minimum period of 15 years from the date of the approval of the investment, and in case of nationalization of a foreign firm after the 15-year period, the investor is entitled to indemnity. Private foreign investors can transfer abroad a portion of both annual net profits and repatriated capital.*

8. Some foreign businessmen claim that the Vietnamese government is highly discriminatory in granting licenses to foreign firms for operation within South Vietnam. It is reported, for example, that licenses are granted quickly to foreign firms engaged in contractual work in support of the US military establishment in South Vietnam, while foreign firms attempting to invest within the provisions of the 1963 investment law experience long delays. In the case of some industries, the government deliberately tries to control private foreign investment by reserving the right to participate up to and in excess of 51% of a firm's capital.

9. Other deterrents to private foreign investment include the lack of a long-range plan for the economic development of the country, inaccurate and inadequate information concerning investment opportunities, and rapid increases in the price level which result in erosion of profits, devaluation of assets, and an inability to plan ahead. In addition, South Vietnam's greatly overvalued exchange rate probably has contributed to the lack of foreign investment in both import-substitution and export-producing industries. The massive US import program that is used to help stabilize the economy, however, undoubtedly has been a greater deterrent to the establishment of import-substitution industries. Finally, although AID guarantees of 100% are available to US investors in South Vietnam for losses through war, expropriation, insurrection, and inconvertibility, the government of South Vietnam during the past two years would not approve investments guaranteed by AID because it feared that it would have to reimburse the United States for any war risk claims paid by the United States to private investors. In early 1970, however, this fear was removed by an amendment to the investment agreement, and South Vietnam presumably will now approve AID guaranteed investments.

Prospects

10. The views of the foreign business community on prospects for private foreign investment in South Vietnam vary widely, depending greatly on the expected outcome of the war. Some foresee a complete US withdrawal accompanied by deflation, widespread unemployment, and a sharp drop in demand for consumer goods. Others predict total chaos after US withdrawal,

followed by the establishment of a Communist state, nationalization of foreign-owned enterprises, and expulsion of all foreign investors. At the other end of the spectrum are those who feel that peace will return and the extensive infrastructure constructed by the US military and the training given to Vietnamese laborers by US contractors will enable the country to attract considerable private foreign investment.

11. Assuming the return of a peacetime environment, the continuation in power of a non-Communist government, and the resumption of normal economic activity, there would appear to be several promising fields for private foreign investment. Among those mentioned by a Japanese group which surveyed South Vietnam are agricultural implements, sugar refining, plywood, paper, fertilizer, chemicals, pharmaceuticals, and the assembly of electric appliances. A Vietnamese government survey conducted in 1969 mentions rubber processing, cement, food processing, and lumber as the most attractive fields for private foreign investment.

12. Even under these favorable circumstances, however, private foreign investment in South Vietnam will continue to account for a very small share of total gross capital formation unless the government makes a determined effort to establish a more favorable investment climate by removing its restrictive practices, offering genuine incentives to private foreign investors, and adopting sound monetary and fiscal policies. A new investment law currently being drafted by the government may -- if properly implemented -- encourage private foreign investment. If approved by the National Assembly, the new law will grant fiscal and exchange incentives for longer periods of time. Priority will be given to those enterprises engaged in fishing and agricultural activities, businesses using locally available raw materials, and ventures that will stimulate South Vietnam's export trade. Unless this and other measures are taken to improve the investment climate, the capital necessary for the successful development of the South Vietnamese economy will have to be provided by private domestic sources, the Vietnamese government, and official foreign aid. Moreover, if the peacetime environment postulated in this section does not materialize,

private foreign investment in South Vietnam undoubtedly will be negligible.

Conclusions

13. The equity value of private foreign investment in South Vietnam in 1969 was estimated at roughly $200 million, most of which was accounted for by France and the United Kingdom. This investment represents a very small share of both total investment and GNP in South Vietnam. The low level of private foreign investment in South Vietnam is not surprising in view of the insecurity, uncertain outcome of the war, shortage of skilled workers, inflation, overvalued exchange rate, and lack of an effective government policy to attract private foreign investment.

14. An end to hostilities with Vietnamese government control over the country is a necessary condition for a major future expansion of private foreign investment. Even so, unless the Vietnamese government makes a determined effort to establish a more favorable investment climate by removing its restrictive practices and offering genuine incentives to private foreign investors, private foreign investment will continue to account for a very small share of total gross capital formation in South Vietnam.

APPENDIX

Private Foreign Investment in South Vietnam 1969

Thousand US $

Country and Company	Estimated Value of Foreign Equity Participation
United States	
Tuy-Hoa Sugar Co.	2,551
Caltex, Ltd.	2,238
Esso	2,238
Vimytex (textiles)	572
Chase Manhattan Bank	508
Bank of America	254
American Trading Company	221
Foremost Dairies	181
Subtotal	8,763
France	
MIC (cigarettes)	33,126
SEGI (carbonated drinks)	20,000
Brasseries et Glacieres de l'Indochine	5,612
Mitac (cigarettes)	818
Bastos (cigarettes)	556
Plateaux Indochinois (coffee, rubber)	508
Banque Francaise de l'Asie	424
Banque Francaise pour le Commerce	339
Banque Nationale de Paris	339
Michelin	254
Coronel Plantation (coffee)	164
Poinsard and Veyret (fluorescent lamps)	127
Sovifel (welding rods)	82
Subtotal	62,349
United Kingdom	
MIC (cigarettes)	31,827
Shell	610
Hong Kong and Shanghai Banking Corp.	254
The Chartered Bank	254
Subtotal	32,945

Thousand US $

Country and Company	Estimated Value of Foreign Equity Participation
Nationalist China and Vietnamese citizens of Chinese origin	
Bank of China	508
Bank of Communications	508
Vinatexco (textiles)	305
Bank of East Asia	254
Thien-Huong Co. (sodium glutamate)	130
Visyfasa (textiles)	83
Intertexco (textiles)	25
Dakiweld (welding rods)	10
Vinatefinco (textiles)	8
Subtotal	1,831
Netherlands	
Shell	1,170
Japan	
Bank of Tokyo	254
South Korea	
Korea Exchange Bank	254
Thailand	
Bangkok Bank	254
Italy	
Cobogido and Cogido	34
Portugal	
Intertexco	4
Total	*107,858*